

CITY OF BALTIMORE
OFFICE OF THE COMPTROLLER

Combined Financial Statements and Other Financial Information

Year ended June 30, 2003 with Report of Independent Auditors



City of Baltimore
Office of the Comptroller

Combined Financial Statements
and Other Financial Information

Year ended June 30, 2003

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Report of Independent Auditors

The Mayor, City Council, Comptroller and Board of Estimates
City of Baltimore

We have audited the accompanying combined financial statements of the City of Baltimore, Maryland, Office of the Comptroller, for the year ended June 30, 2003 as listed in the table of contents. These financial statements are the responsibility of the City of Baltimore, Maryland's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

As discussed in Note 1, the financial statements of the City of Baltimore, Maryland, Office of the Comptroller, are intended to present the changes in financial position on only that portion of the financial reporting entity of the City of Baltimore, Maryland that is attributable to the transactions of the Office of the Comptroller for the year ended June 30, 2003 and are not intended to provide a complete presentation of the changes in financial position of the City of Baltimore, Maryland for the year ended June 30, 2003.

In our opinion, the financial statements referred to above present fairly, in all material respects, the changes in financial position and budgetary comparison of the City of Baltimore, Maryland, Office of the Comptroller, for the year ended June 30, 2003, in conformity with accounting principles generally accepted in the United States.

Our audit was made for the purpose of forming an opinion on the combined financial statements taken as a whole. The combining financial statements listed in the accompanying table of contents are presented for purposes of additional analysis and are not a required part of the combined financial statements of the City of Baltimore, Maryland, Office of the Comptroller. Such information has been subjected to the auditing procedures applied in the audit of the combined financial statements and, in our opinion, is fairly stated in all material respects in relation to the combined financial statements taken as a whole.

Ernst + Young LLP

May 25, 2004

City of Baltimore
Office of the Comptroller

Combined Statement of Revenues, Expenditures, and Appropriations—
General Fund

Year ended June 30, 2003

Revenues – recoveries	\$ 367,278
Expenditures:	
Salaries and wages	3,190,768
Other personnel costs	667,999
Contractual services	119,726
Materials and supplies	18,315
Equipment	71,620
Total expenditures	<u>4,068,428</u>
Deficiency of revenues over expenditures	(3,701,150)
Appropriations	<u>4,036,525</u>
Excess of revenues and appropriations over expenditures	<u>\$ 335,375</u>

See accompanying notes.

City of Baltimore
Office of the Comptroller

Combined Statement of Revenues, Expenditures, and Encumbrances,
and Appropriations, Budget and Actual—General Fund (Budgetary Basis)

Year ended June 30, 2003

	Original and Final Budgeted Amounts	Actual	Favorable (Unfavorable) Variance
Revenues – recoveries	\$ 367,278	\$ 367,278	\$ –
Expenditures and encumbrances:			
Salaries and wages	3,190,768	3,190,768	–
Other personnel costs	667,799	667,799	–
Contractual services	141,227	141,227	–
Materials and supplies	16,493	16,493	–
Equipment	387,516	387,516	–
Total expenditures and encumbrances	4,403,803	4,403,803	–
Deficiency of revenues over expenditures and encumbrances	(4,036,525)	(4,036,525)	–
Appropriations	4,036,525	4,036,525	–
Excess of revenues and appropriations over expenditures and encumbrances	\$ –	\$ –	\$ –

See accompanying notes.

City of Baltimore
Office of the Comptroller

Combined Statement of Revenues and Expenses—
Internal Service Funds

Year ended June 30, 2003

Revenues – charges for services	\$ 13,863,222
Expenses:	
Salaries and wages	1,009,232
Other personnel costs	357,498
Contractual services	9,753,282
Materials and supplies	6,889
Equipment	36,230
Postage and delivery service	1,026,959
Depreciation	71,768
Total operating expenses	<u>12,261,858</u>
Operating income	<u>\$ 1,601,364</u>

See accompanying notes.

City of Baltimore
Office of the Comptroller

Notes to Combined Financial Statements

June 30, 2003

1. Description of Entity and Funds

The Office of the Comptroller was established by Article V of the Charter of Baltimore City, Maryland (City). The Comptroller of the City is an official elected by the voters to a four-year term. The Comptroller is a member of the City's Board of Estimates and Board of Finance. The Comptroller is also responsible for the operations of the Department of Real Estate, the Municipal Post Office and Municipal Telephone Exchange, as well as the general supervision of the Department of Audits.

These financial statements are intended to present the changes in financial position of only that portion of the financial reporting entity of the City of Baltimore, Maryland that is attributable to the transactions of the Office of the Comptroller for the year ended June 30, 2003 and do not purport to, and do not, present the changes in financial position of the City of Baltimore, Maryland for the year then ended.

The Office of the Comptroller's financial transactions are part of the City's accounting system, which is organized and operated on a fund basis. A fund is defined as an independent fiscal and accounting entity with a self-balancing set of accounts, recording cash and other financial resources together with related liabilities and residual equities or fund balances and changes therein, which are segregated for the purpose of carrying on specific activities or attaining certain objectives in accordance with specific regulations, restrictions or limitations. The transactions of the Office of the Comptroller are grouped by funds in the financial statements as follows:

Governmental Fund

General Fund—The General Fund is the principal fund of the Office of the Comptroller which accounts for all financial transactions not accounted for in other funds. The transactions of this fund are included in the City's General Fund.

Proprietary Funds

Internal Service Funds—These funds account for the financing of goods or services provided to various other agencies of the City on a cost reimbursement basis. The following funds are included in this category:

- **Municipal Post Office Fund**—Accounts for the operations of an internal post office facility offering complete mail services, including interdepartmental pick-up and delivery services for various City agencies.

City of Baltimore
Office of the Comptroller

Notes to Combined Financial Statements (continued)

1. Description of Entity and Funds (continued)

Proprietary Funds (continued)

- Municipal Telephone Exchange Fund—Accounts for the administration and operations of the City's telephone exchange.

2. Summary of Significant Accounting Policies

A summary of the significant accounting policies followed by the Office of the Comptroller in preparation of the accompanying financial statements is as follows:

Basis of Accounting

The modified accrual basis of accounting is used for the General Fund. Under the modified accrual basis of accounting, revenues are recorded when susceptible to accrual (i.e., both measurable and available). Revenues from recoveries are susceptible to accrual. "Measurable" means that the amount of the transaction can be determined and "available" means collectible within the current period or soon enough thereafter to be used to pay liabilities of the current period. Expenditures are recognized when the related fund liabilities are incurred except for accumulated employee leave, which are recognized when paid. Appropriations are recognized as approved and represent the Office of the Comptroller's final approved budget amount for fiscal year 2003.

The financial statements of the Internal Service Funds have been prepared on the accrual basis of accounting, whereby revenues are recorded when earned and expenses are recorded at the time liabilities are incurred.

Encumbrances

Encumbrance accounting, under which purchase orders, contracts, approved requisitions and other commitments for the expenditures of funds are recorded in order to reserve that portion of the applicable appropriation, is employed in the General Fund budgetary basis operating statement.

City of Baltimore
Office of the Comptroller

Notes to Combined Financial Statements (continued)

3. Budgeting and Budgetary Control

Annual budgets are adopted for the General Fund on a basis consistent with accounting principles generally accepted in the United States (GAAP), except for certain miscellaneous general expenses, which are not budgeted and encumbrances, which are recognized as expenditures for budgetary purposes but not under GAAP. The City's Board of Estimates must submit budgets to the City Council within 45 days of the end of the fiscal year. The City Council must then enact the budget within five days of the end of the fiscal year.

Appropriations for a particular program, purpose, activity or project may, upon the recommendation of the head of the municipal agency concerned and the Director of Finance and with the approval of the Board of Estimates, be carried over to the subsequent fiscal year to carry out the initial appropriation objectives. All appropriations not carried over lapse at the end of the fiscal year in which they were made. In addition, funds encumbered for contracts, purchase orders, approved requisitions or other actual commitments are carried over to the ensuing fiscal year until utilized or canceled.

The adopted budgets are prepared and appropriated on an agency, program, activity and object of expenditure basis by fund. Expenditures for each adopted annual operating budget may not legally exceed appropriations at the agency level. Administratively, the Department of Finance has the authority to transfer appropriations between programs within the same agency. The Board of Estimates has the authority to transfer appropriations between programs within the same agency. Only the City Council can transfer appropriations between agencies.

The City Charter permits further appropriations for programs included in the original Ordinance of Estimates made necessary by material changes in circumstances and for additional appropriations for new programs or grant awards, which could not reasonably be anticipated when formulating the original Ordinance of Estimates. These changes require supplemental appropriation ordinances. During Fiscal Year 2003, supplemental appropriation ordinances were not required for the Office of the Comptroller's General Fund.

The budget adopted by the City Council for the Office of the Comptroller General Fund activities and related actual results are presented in the Combined Statement of Revenues, Expenditures, and Encumbrances, and Appropriations, Budget and Actual—General Fund (Budgetary Basis). Encumbrances account for the difference between this statement and the combined Statement of Revenues, Expenditures and Appropriations—General Fund, which is presented on a GAAP basis.

Other Financial Information

City of Baltimore
Office of the Comptroller

Combining Statement of Revenues, Expenditures, and Appropriations—
General Fund

Year ended June 30, 2003

	Department			
	Executive Direction and Control	Audits	Real Estate Acquisition and Management	Total
Revenues – recoveries	\$ 247,893	\$ –	\$ 119,385	\$ 367,278
Expenditures:				
Salaries and wages	517,423	2,242,988	430,357	3,190,768
Other personnel costs	94,019	464,257	109,723	667,999
Contractual services	30,795	58,675	30,256	119,726
Materials and supplies	4,684	11,140	2,491	18,315
Equipment	30,905	40,715	–	71,620
Total expenditures	677,826	2,817,775	572,827	4,068,428
Deficiency of revenues over expenditures	(429,933)	(2,817,775)	(453,442)	(3,701,150)
Appropriations	453,344	2,837,206	745,975	4,036,525
Excess of revenues and appropriations over expenditures	\$ 23,411	\$ 19,431	\$ 292,533	\$ 335,375

City of Baltimore
Office of the Comptroller

Combining Statement of Revenues, Expenditures, and Encumbrances,
and Appropriations, Budget and Actual—General Fund (Budgetary Basis)

Year ended June 30, 2003

	Department			Total
	Executive Direction and Control	Audits	Real Estate Acquisition and Management	
Revenues – recoveries	\$ 247,893	\$ –	\$ 119,385	\$ 367,278
Expenditures and encumbrances:				
Salaries and wages	517,423	2,242,988	430,357	3,190,768
Other personnel costs	93,819	464,257	109,723	667,799
Contractual services	31,279	79,621	30,327	141,227
Materials and supplies	4,625	9,756	2,112	16,493
Equipment	54,091	40,584	292,841	387,516
Total expenditures and encumbrances	701,237	2,837,206	865,360	4,403,803
Deficiency of revenues over expenditures and encumbrances	453,344	2,837,206	745,975	4,036,525
Appropriations	(453,344)	(2,837,206)	(745,975)	(4,036,525)
Excess of revenues and appropriations over expenditures and encumbrances	\$ –	\$ –	\$ –	\$ –

City of Baltimore
Office of the Comptroller

Combining Statement of Revenues and Expenses—
Internal Service Funds

Year ended June 30, 2003

	Municipal Post Office	Municipal Telephone Exchange	Total
Revenues – charges for services	\$ 1,346,582	\$12,516,640	\$ 13,863,222
Expenses:			
Salaries and wages	347,024	662,208	1,009,232
Other personnel costs	136,596	220,902	357,498
Contractual services	81,436	9,671,846	9,753,282
Materials and supplies	2,040	4,849	6,889
Equipment	2,263	33,967	36,230
Postage and delivery service	1,026,959	–	1,026,959
Depreciation	3,652	68,116	71,768
Total operating expenses	1,599,970	10,661,888	12,261,858
Operating income (loss)	<u>\$ (253,388)</u>	<u>\$ 1,854,752</u>	<u>\$ 1,601,364</u>